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A Progressive Railroad
in
The Growing South

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THE SEABOARD AIR LINE

The National City Company
National City Bank Building
New York

A Progressive Railroad in the Growing South

THE SEABOARD AIR LINE

Its Earnings, Condition and Prospects

The information contained in this pamphlet, although not
guaranteed, is derived from sources which
we regard as reliable

The National City Company
National City Bank Building
New York
1917

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A Progressive Railroad in the Growing South

Development

For more than a generation after the close of the Civil War, the economic progress of the South was painfully slow, but in the last ten years it has undoubtedly developed more rapidly than any other section of the country. The South is commonly thought of as an agricultural country but it is becoming an increasingly important manufacturing section. The possibilities for growth in the South in manufacturing, mining, lumber and other industries are so large that the southern trunk lines can rightfully expect to be afforded a constantly and rapidly increasing tonnage.

The Seaboard System

The lines of the Seaboard Air Line extend through the most thriving and progressive parts of the South, serving practically all of the leading ports of the South Atlantic seaboard. The Company owns over 3,400 miles of road welded into a compact system, connecting Richmond and Norfolk with Charleston and Savannah, Jacksonville and Tampa. Through its joint ownership of the Richmond-Washington Line, Seaboard trains run to and from the National Capital. The Company's lines also stretch into the iron and steel district at Birmingham, where they secure a greater iron tonnage east-bound than all the other lines combined.

The traffic of the system is very happily diversified. One quarter of it is derived from mining products,

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By, S. S. ...

another quarter from forest products, and something less than one-fifth from agricultural products. The tonnage of manufactured articles amounts to more than one-third of the total, and as such articles command higher rates, the average revenue per ton (all classes of freight) is higher than that of roads handling a larger proportion of low grade freight. In respect to diversification of tonnage, the Seaboard Air Line is superior to its neighbors.

A rapidly growing community demands rapidly growing railways. The commercial demands of the South have compelled the Seaboard to add over 450 miles of road, or 15%, to its system since 1910. The most recent addition is the low grade line from Hamlet, N. C. to Charleston and thence to Savannah. The lines north of Charleston, 330 miles, were first incorporated in the Seaboard system in November, 1915, but the line between Charleston and Savannah, 86 miles, is just being opened for traffic at the present time. The system has not yet begun to receive the real benefit from these new lines.

Growth of Earning Power

In 1910 (the first year after reorganization) the Seaboard Air Line operated about 3,000 miles of road, earning \$20,069,000 gross, or \$6,670 a mile. In the year ended June 30, 1917, the Company earned \$28,178,000, or \$8,140 a mile. This increase in gross earnings, which exceeds 40%, measures the rapid growth of the territory which the Seaboard serves.

In order to give the travelling and shipping public the best service, the Company has spent large sums of money. That the money has been invested wisely and profitably is brought out in the following comparison, which shows the margin of safety for fixed charges

including rentals in the five years 1912-1916 inclusive, compared with other roads:

	Times Fixed Charges Earned
Illinois Central.....	1.66 times
Baltimore & Ohio.....	1.60 "
SEABOARD AIR LINE.....	1.57 "
Chesapeake & Ohio.....	1.46 "
Southern Railway.....	1.41 "
Erie.....	1.37 "

The fact that the Seaboard Air Line has been earning its fixed charges by a larger margin of safety in the past few years than the Chesapeake & Ohio, the Southern Railway and the Erie, is probably not generally appreciated.

The next table compares the Seaboard Air Line's average earnings for the five years, 1912-1916, with the figures for the twelve months ended June 30, 1917, the latter being partly estimated.

	AVERAGE Five Years	Year ended June 30, 1917	Increase over Five Year Average
Total Operating Revenues...	\$23,829,275	\$28,177,897	\$4,348,622
Maintenance Expenses....	6,325,871	7,714,817	1,388,946
Total Operating Expenses....	16,417,901	19,368,878	2,950,977
Gross Income.....	7,650,314	9,185,961	1,535,647
Taxes, Rentals, etc.....	*1,687,541	2,158,239	470,698
Balance	5,962,773	7,027,722	1,064,949
Interest on Mortgage Bonds..	3,611,065	4,439,606	828,541
NET INCOME.....	<u>\$2,351,708</u>	<u>\$2,588,116</u>	<u>\$236,408</u>

Maintenance of Property

The Seaboard Air Line has always maintained its roadbed, track and rolling stock in good condition. The figures in the preceding table show that out of every dollar of increased gross earnings, the Company has been applying 30 cents for increased maintenance. Be-

* This includes in addition to Taxes and Rentals, Debit Hire of Equipment and Interest on Equipment Trust issues.

cause of their similarity in respect to physical conditions, a comparison of the maintenance expenses of the Seaboard Air Line with the Atlantic Coast Line is of interest. It is well known that the Atlantic Coast Line is one of the strongest railroad properties in the country. Per mile of road, these two companies have charged to operating expenses the following average amounts for the five years 1912-1916 inclusive:

	Seaboard Air Line	Atlantic Coast Line
Maintenance of Way and Structures..	\$ 943	\$ 989
Maintenance of Way and Equipment.	1,073	1,196

For this same period, the Seaboard has applied 26.2% of its gross earnings towards maintenance; the Atlantic Coast Line has applied 26.6%, and the Florida East Coast, 27.3%.

The average weight of rail in the Seaboard Air Line's tracks is 70½ pounds to the yard; for the Atlantic Coast Line, 72 pounds. The Seaboard is rapidly increasing the heavier weights of rail in its track, as the following figures prove:

	1912	1916
90 Lbs.....	0 miles	45 miles
85 "	76 "	491 "

Operating Efficiency

Notwithstanding the difficult conditions recently besetting the railway industry, the Seaboard Air Line has been handling an increasing business with a decreasing cost.

In 1912, for every mile run by freight trains, the Company earned \$2.62; in 1916, \$3.36, an improvement of no less than 28%. In order to earn \$15,433,000, freight trains had to run 5,500,000 miles in 1912; in 1916, freight trains ran nearly 1,000,000 miles *less* and earned about \$1,500,000 *more*. Every mile

saved in running trains obviously means a saving of wear and tear of equipment, roadbed and track, in consumption of coal and in payment of wages. An increase of 10% in freight earnings, against a decrease of 18% in freight train miles, was made possible by loading an average of 336 tons of revenue freight per train in 1916, as compared with only 237 tons five years ago.

The operating expenses of a railroad consume an average of about 66 cents out of every dollar of gross earnings. Of the 66 cents, the maintenance of this property calls for about 26 cents, while the transportation expenses (that is, the actual cost of running the road) amount to about 33 cents more. One of the largest single items of expense in transportation costs is locomotive fuel. In 1912, the Seaboard's coal bill was \$1,927,000; in 1916 it was reduced to \$1,578,000. Each ton of coal enabled locomotives to run 14.58 miles in 1912, and 15.82 miles in 1916, thus showing a substantial increase in operating efficiency. This record is the more satisfactory in view of the fact that the average load pulled by locomotives increased 99 tons, or 42%.

The Seaboard Air Line's train load compares very favorably with other roads in the South, and is considerably in excess of the Atlantic Coast Line's. It is also of interest to know that while the Seaboard has the same number of locomotives in service as the Atlantic Coast Line per hundred miles of track, *i. e.*, 17, the average tractive power of the Seaboard's locomotives is 27,955 lbs. as compared with 22,453 lbs. on the Atlantic Coast Line.

Financial Policy

The Seaboard Air Line has consistently endeavored to maintain a strong financial position. Substantial

improvement in this respect is illustrated in a comparison of working capital.

	1912	1916
Current Assets.....	\$4,323,487	\$8,132,038
Current Liabilities.....	4,309,852	5,063,695
Excess of Current Assets....	\$13,635	\$3,068,343

The balance sheet as of June 30, 1916, disclosed \$3,452,034 cash, as against a similar item of \$1,692,896 in 1912.

The Profit and Loss Book Surplus likewise has been built up very satisfactorily, viz.:

1910.....	\$2,539,575
1911.....	4,112,334
1912.....	4,949,040
1913.....	6,402,624
1914.....	7,261,752
1915.....	7,063,271
1916.....	8,057,446

Since 1910 the Company has had a total surplus over fixed charges of \$19,871,279. After payment of the 5% on the Adjustment Bonds there remained \$10,289,996. Out of this amount only \$955,764 has been paid in dividends, leaving \$9,334,232, which the Company has applied to the upbuilding of its physical and other assets.

In 1912 the funded debt of the Seaboard (exclusive of the Adjustment Bonds, the interest on which is not a fixed charge) was \$78,310,000. In 1916 it was \$100,200,000, an increase of \$21,890,000 in five years. The productive assets of the railway, as a result of this expenditure, have increased as follows:

Miles of road owned.....	369—32%
Locomotives ".....	100—21%
Passenger Cars ".....	77—22%
Freight and other Cars owned.....	1,784—10%

In addition, double tracking has been carried forward, sidings and spurs built, ballasting improved,

trestles filled and heavier bridges constructed. The railway's plant is thus being steadily perfected.

Management

Mr. W. J. Harahan, President of the Seaboard Air Line, has been in charge since 1912. Prior to his connection with the Seaboard, he was Vice-President of the Erie Railroad. He is regarded as one of the best operating men of the country. His career has been invariably featured by the most satisfactory relations with the railroad men under him. As the Seaboard serves the South, it has wisely selected a large number of directors resident in the South. Of the present number of twenty-four members, no less than thirteen are leading southern men who have been able to be of the greatest value to the Company. The management has aimed to make friends for the railroad by giving a service second to none. The Seaboard furnishes the fastest passenger service and the fastest and most uniform freight service between eastern points and Florida. It owns a greater proportion of steel passenger equipment than any other line in the South, as well as the most powerful locomotives. It is safe to assert that the Seaboard is the most popular road in the South and it has earned its popularity by its constant endeavor to give good service.

The Future of the Seaboard

The year following the outbreak of the war in Europe was one of acute distress in the South. The collapse in cotton produced industrial paralysis. It was a situation not likely to repeat itself. That the Seaboard Air Line in that year was able to earn all of its fixed charges with a margin of \$1,265,000, in spite of

a decrease in gross earnings of \$3,639,000, is the best evidence that this property is financially sound.

In estimating the future of the property, two facts must be kept in mind. The first is the certain development of the South. In the eastern district (following the Interstate Commerce Commissions' classification) there are 34,650 miles of road serving 288,000 square miles. In the southern district, there are 437,000 square miles served by 33,900 miles of road. Here is a territory 50% larger than the eastern district producing traffic for about the same number of miles of railroad. So there is room for a greater expansion in railroad traffic in the South than in any other section of the country.

The second fact is an economic principle underlying all railroad operation. Railroads as a class are distinguished by the great size of the plant in comparison with the earnings therefrom. While the gross earnings of an industrial corporation may easily exceed its capitalization, a railway's gross earnings are seldom more than one-fifth or one-tenth of its total capitalization. The initial investment in railways, in other words, must be very large. When a railway is once built, the roadbed and equipment will serve within wide limits whether the traffic be large or small. An increase in the traffic, though it causes some increase in operating expense, ordinarily calls for no increase in plant. So, for the traffic as a whole, it means decreased expenses per unit.

The Seaboard is easily capable of handling a much larger traffic with a relatively small addition to property investment; which means that the profits hereafter should increase at an accelerating pace. The railroad today carries a very light capital in bonds having a fixed charge, less than \$28,000 a mile, which

